

# *Analysis of Foreign Trade Policy in Abenomics*

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**Abstract:** The outbreak of the international financial crisis in 2008 dealt a severe blow to Japan's foreign trade environment. Under the severe form of Japan's foreign trade, Shinzo Abe came to power and put forward "Abenomics" to provide strong policy support for Japan's foreign economic development. This paper collects and arranges the foreign trade policy data of the Abe government during its two terms of office and analyses the impact of Abenomics on the Japanese economy. The study finds that, firstly, the Abe government focuses on the construction of an all-round regional economic partnership. During its term of office, it has signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Japan-Europe Economic Partnership Agreement (EPA), and the Regional Comprehensive Economic Partnership (RCEP) and actively carries out trade diplomacy. Secondly, the Abe government attaches importance to foreign investment, actively investing in China, South Korea, and Southeast Asia, considering the economic and trade relations between Eastern and Western Europe. Thirdly, after Abe left office, the Kishida government continued the content of Abenomics. It proposed new capitalism with the times, and implementing this policy in Japan's foreign trade has both the shadow of Abe's economics and recent developments.

**Keywords:** Abenomics, foreign trade, regional economic cooperation, outward investment

## 1. Introduction

In the first half of 2008, international oil prices, raw materials, and food prices soared in resource-poor Japan, causing a great impact. From the second quarter of 2008, Japan's economy fell into a negative growth trend, but the decline was limited. However, in September 2008, after the international financial crisis erupted, Japan's stock market plummeted. A sharp drop in exports due to yen appreciation caused the first deficit in nearly three decades, making many Japanese export enterprises close down. Due to the decline in production and business difficulties, the unemployment rate rose sharply, and the Japanese economy fell into the most serious recession after World War II [1].

In the face of the severe economic environment in Japan, after Shinzo Abe came to power in 2012, he introduced a series of economic policies, starting with the "three arrows" of "bold monetary policy," "flexible fiscal policy," and "growth strategy to stimulate private investment." After taking office in 2012, Shinzo Abe introduced a series of economic policies starting with the "three arrows", and Abenomics was born. Since the birth of Abenomics, new interpretations and contents have been

generated along with the development of the Japanese economy, among which this paper will focus on analyzing the theories and policies related to foreign trade.

## **2. Analysis of Foreign Trade Policy**

Under the policy support of the Abe administration, Japan is pursuing a strategic trade policy that combines trade and investment at an advanced stage and is implementing a multi-level, flexible free trade strategy to maximize trade benefits while continuing to play a role in the global multilateral trading system, actively engaging in strategic trade diplomacy, and making use of bilateral and multilateral trade co-ordination to gain trade advantages further and promote the sustainable development of the domestic economy [2]. The present section will focus on regional cooperation and investment.

### **2.1. Regional Economic Cooperation Policies**

In terms of the results of the foreign economic policy implemented by the Abe administration, its most striking achievement is that, after years of strenuous efforts, Japan has achieved the upgrading of its all-round regional economic partnership. In the final years of the Abe Administration, the Government of Japan has endeavored to promote the upgrading of its comprehensive economic partnership with the countries of Asia and Europe and has worked to uphold the global free trade system.

#### **2.1.1. CPTPP**

Multilateral Free Trade Agreements (FTAs), represented by the Progressive Agreement for Trans-Pacific Partnership (CPTPP), are solutions for countries facing economic downturns and weak growth after the financial crisis of 2008. Japan's economic growth rate has been at a low level for many years, and emerging countries represented by China are becoming more and more competitive in the international trade competition. As a big country that regards itself as a "trade country", Japan, in the face of this reality, has to restore its competitive advantage and improve the external environment, which is the direct cause of Japan's promotion of the CPTPP.

Since Abe's announcement of Japan's renaissance strategy in June 2013, he has clarified the basic orientation of the international development strategy involving structural reforms from a policy perspective. In the "Japan Renaissance Strategy", Abe has clearly set the target of increasing the FTA coverage rate, i.e., the amount of trade covered by FTAs, from 19 percent in 2013 to 70 percent within five years. To achieve this target, the CPTPP is an indispensable component [3].

In March 2018, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) was signed by 11 Asia-Pacific countries originally involved in the Trans-Pacific Partnership (TPP) negotiations, led by Japan, and entered into force at the end of December of the same year. With the policy support and efforts of the second Abe Cabinet, the CPTPP was successfully signed, providing a stable cornerstone for the construction of Japan's new international trade order.

#### **2.1.2. Japan-Europe EPA**

The signing of the Japan-Europe Economic Partnership Agreement (EPA) has gone through a relatively long and tortuous process. Since the Abe Cabinet came to power, Japan has been actively promoting trade cooperation between Japan and the European Union (EU), and the major breakthrough in Japan-EU negotiations took place in 2017. In January 2017, US President Donald Trump signed a presidential decree and announced his formal withdrawal from the TPP after coming to power, which pushed the US foreign trade policy towards unilateralism and trade protectionism.

In February 2017, the House of Commons authorized the Prime Minister, Theresa May, to formally start the Brexit process. This event not only affected the UK's ties with the EU but also Japan's economic interests in the EU and the UK. Against this backdrop, both Japan and the EU are under pressure from the US pursuing protectionist policies and the UK's exit from the EU, and both sides are eager to seek an alternative to setting trade rules and have therefore opted for an early conclusion of a Japan-EU EPA in the first place [4].

After ongoing negotiations between then Foreign Minister Fumio Kishida and the EU, Japan and the EU formally signed the EPA Act on 17 July 2018, with the agreement stipulating that Japan will abolish tariffs on about 94 percent of goods and the EU will abolish tariffs on about 99 percent of goods. The signing of the EPA deepens the Japan-EU economic partnership and further enhances Japan's right to speak and rule in international trade. The signing of the EPA deepens the Japan-EU economic partnership and further enhances Japan's voice and rule-making power in the international trade arena, reflecting the excellent results of Abenomics.

### 2.1.3. RCEP

Regional Comprehensive Economic Partnership (RCEP) is another East Asian regional FTA in which Japan actively participates while leading the CPTPP. As a trading system that accounts for one-third of the global economy, the Abe administration attaches great importance to the RCEP negotiations. Abe stated, "Against the backdrop of rising protectionist sentiments, the strategic importance of RCEP is further increasing, and a free, fair, and rules-based market should be established to realize a free and open Indo-Pacific region" [5]. For RCEP, the Japanese side adheres to the high standard negotiation strategy of "seeking quality rather than speed", and after the transformation from TPP to CPTPP, Japan has paid more attention to RCEP. Since the Abe government came to power at the end of 2012, RCEP has successfully signed; after eight years of negotiations, member states have held four leaders' meetings, 23 ministerial meetings, and 31 rounds of formal negotiations, and actively seek the interests of all parties to the greatest common ground, and jointly promote the world's largest free trade area from concept to reality [6].

For Japan, the signing of RCEP has brought great benefits. The Tokyo stock market opened on 16 November 2020, and the Nikkei saw a significant increase. This was attributed to the signing of RCEP, as investors were expecting higher tariff revocation rates and increased exports, which drove the Japanese stock market up. In addition, the RCEP also contributed to a significant rise in Japan's GDP, and Japan has created an excellent trade development environment and rule-making space for itself, standing at the forefront of global free trade rule-making [7].

The CPTPP, Japan-Europe EPA, and RCEP have taken shape, giving Japan a certain vantage point in the process of building a new economic order. The signing of these three important economic cooperation agreements means that the Japanese government under Abe's leadership has been recognized for its ideas and efforts to promote economic diplomacy and foster economic ties between Japan and the rest of the world. This is in line with the strategic thinking put forward in the Japan Recovery Strategy Report at the beginning of Abe's term of office and is also an important step towards the realization of Japan's "100-year plan", which Abe has repeatedly emphasized.

## 2.2. Outward Investment Policies

For a long time, the spatial distribution of Japan's Outward Foreign Direct Investment (OFDI) has been based on the three main centers of North America, Asia, and Europe. Since the beginning of its administration, the Abe government has paid full attention to OFDI, expecting to optimize the overall layout of Japan's economic diplomacy through the implementation of OFDI. Although Japan's OFDI has shown some ups and downs in terms of total investment, its overall trend is on the rise. Thus,

from the interpretation of the vertical comparison of Japan's foreign direct investment, the overall trend of direct investment shows a gradual increase [8]. This section will focus on analyzing Japan's direct investment policies towards Asian and European countries.

### **2.2.1. Foreign Direct Investment in Asia**

In 2008, the global financial crisis broke out, and the economic growth of developed countries such as Europe and the United States was gradually weak. The global economic growth points to the Asian region, and Japan accelerated the strategic deployment of the economy in the Asian region. Since 2013, the Abe government has implemented the quantitative easing system through the depreciation of the yen and thus increased exports, to a certain extent, weakening the competitiveness of Japan's exports. In addition, Japan's aging population has been slowing down the development of domestic industries due to a massive shortage of labor. In order to compensate for the loss caused by the shrinking demand in the domestic market, to seize and expand the overseas market share, and to maintain its advantageous position in the global value chain, Japan has actively engaged in investment activities in Asia, especially in China and South Korea [9].

However, with the change in China's economic growth model since the 2008 global financial crisis, China's factor costs are rising. Therefore, Japan's investment layout in Asia presents a "China +1" situation - foreign trade in Asia cannot be overly dependent on China; there should be alternative or parallel economic partners. With this layout as the center, Japanese multinational corporations in recent years reduced the proportion of investment in China, the industry in the lower end of the link to the lower factor cost of Southeast Asia to migrate. Compared with the East Asian region's concentration on China and South Korea, Japanese transnational corporations (TNCs) foreign direct investment (FDI) in Southeast Asian countries shows an even distribution, with Thailand and Indonesia accounting for a slightly higher proportion. Among the many countries in Southeast Asia, Thailand attracts Japan to introduce foreign investment by virtue of its traditional advantages, such as its prior industrial base and abundant labor supply, while Indonesia attracts Japanese investment in its service industries, such as communication services and airport services, by virtue of its good economic growth prospects and preferential foreign investment policies [9].

### **2.2.2. Foreign Direct Investment in Europe**

Japan and the EU are both developed economies that occupy an important position in the world economy. The two have also had frequent trade exchanges in recent years. Especially after the signing of the Japan-EU EPA in July 2018, the scale of Japan's direct investment in Europe has expanded rapidly. In the following, Japan's investment tendency in European countries will be analyzed separately from Western Europe and Central and Eastern Europe.

The United Kingdom is a long-standing partner of Western Europe and Japan. Because of its position as a major international financial center and "bridgehead" for the European Union, the UK has attracted a large number of Japanese companies to invest and set up offices in the UK. In 2020, among the Japanese companies in the UK, the wholesale and sales industry accounted for about 35%, the manufacturing industry accounted for about 24%, the financial and insurance industry accounted for about 12%, and large Japanese manufacturers such as Toyota, Nissan, Hitachi, etc. have their bases in the UK. Toyota, Nissan, Hitachi, and other major Japanese manufacturers have a presence in the UK [10]. Japan's close investment in the UK can strengthen its cooperative relationship with the European Union, reinforce its ties with European countries in terms of economic and trade rules, and further expand its foreign economic and trade strategies.

Compared with the relatively mature economic and trade relations between Japan and Western European countries, the economic and trade relations between Japan and Central and Eastern

European countries are full of possible space. The manufacturing industry, represented by automobiles and parts, is the main industry of Japanese investment in Central and Eastern Europe. Japan's investment is mainly in large multinational corporations, Toyota Motor, Mitsubishi Electric, Sumitomo Heavy Industries, and many other manufacturing enterprises that have production bases in Central and Eastern European countries. Japan's investment in auto parts at the same time also focuses on investment assistance to some of the Central and Eastern European countries. For example, the enterprise Suzuki Motor Hungary has additional investment, specifically for technology research and development. Japan's development assistance gives the Eastern European countries in the transition process a large procurement list of Japanese products, enhances the penetration of Japanese products in Central and Eastern Europe, expands the market, and increases Japan's export volume [11]. Trade space, and can take advantage of the active development of trade in Central and Eastern European countries, enriching the development of Japan's trade relations in Europe, which coincides with Abe's hopes to deepen the economic and trade cooperation relations between Japan and Europe through the signing of the EPA.

### **3. Inheritance and Development of Abe's Economics by the Kishida Government**

After Abe's resignation as prime minister in 2020, the Kan and Kishida administrations have continued Abenomics to a certain extent. On the basis of Abenomics, the Kishida government has adjusted its economic policy by proposing a "new capitalism", which is centered on growth and distribution to achieve balanced economic growth.

The implementation of new capitalism in Japan's foreign trade is both a shadow of Abenomics and a new development. Firstly, in terms of its policy towards the US, the Kishida administration has continued the Abe administration's approach of "attack when it is time to attack, defend when it is time to change the rules" while at the same time responding to the US by applying the "universal values" of its foreign policy. Since the Trump administration, the US has been manipulating economic and trade relations in a pan-security operation, using national security as a pretext to take unilateral bullying measures and suppress the technological development of emerging economies. In the face of the unilateral and hegemonic attitude of the US ally, the Kishida government has shown its support for the US while trying to avoid the negative impact of US unilateralism on Japan's economy, which is Japan's tactical plan to maximize its national interests in the changing times and to obtain a greater degree of shared rights and interests, and it is an economic policy with Kishida's colors.

At the same time, the Kishida government is trying to create new norms for international trade and economic cooperation that better meet the needs of Japan's economic interests by actively participating in global economic governance. The CPTPP, which Japan joined during the Abe period, remains the core of Japan's economic negotiations, and the Kishida government has also made use of the World Trade Organization (WTO), Asia-Pacific Economic Cooperation (APEC), and other platforms to strategically promote high-level economic and trade cooperation with the Asia-Pacific region, East Asia, Europe and other regions, with the intention of building Japan into a unique and attractive production base and investment object, reflecting its intention to take the lead in actively promoting the improvement and implementation of international rules and regulations in the economic sphere [8].

### **4. Conclusions**

This paper collects and arranges the foreign trade policy information of the Abe government during its two terms of office time from 2012 to 2020 and analyses Japan's foreign trade situation by combining the theoretical content of Abenomics. The results of the study found that, first of all, the Abe government attaches great importance to the construction of all-round regional economic



partnerships. In March 2018, Japan signed the CPTPP and the EPA, which provided a stable cornerstone for the construction of Japan's new international trade order, enhancing Japan's discourse and rule-making power in the field of international trade. The successful signing of RCEP at the end of 2020 has created an excellent environment for trade development and space for rule-making for Japan and stood at the forefront of global free trade rule-making.

Second, the Abe administration has emphasized foreign investment and has actively laid out its operations in Asia and Europe. In addition to China and South Korea, Japan has invested in the lower end of the industry in Southeast Asia, mainly focusing on Thailand and Indonesia, to reduce production costs and maintain its advantages in the global value chain. After signing the EPA with Europe, Japan has not only launched multi-sector investment cooperation with the UK to consolidate the Japan-UK relationship but has also strongly supported investment in Central and Eastern Europe to enrich the development of Japan's trade relations with countries outside Western Europe.

Third, after Abe stepped down, the Kishida government inherited and developed Abenomics. He proposed new capitalism, utilizing the foreign trade policy that Japan had already had during the Abe period to respond flexibly to changes in the international situation and to maximize the benefits for Japan as much as possible, reflecting Kishida's and Abe's similar ambitions for Japan to become the dominant player in the international trade situation.

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